

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2003 through the Fourth Quarter of 2007

Idaho's economy began moving again in 2003 and is expected to gradually accelerate through 2007. This is a welcome change from 2002, when Idaho nonfarm employment declined for the first time in 15 years. The Idaho quarterly job data show employment declined during the last two quarters of 2001 and the first quarter of 2002. Idaho employment expanded slowly during the remainder of 2002, but was not strong enough to reverse the previously lost ground. Hence, the employment decline in 2002. It should be pointed out that while Idaho nonfarm employment was flat in 2002, it was stronger than its national counterpart that fell 1.1%.

As was noted above, Idaho's employment began improving as far back as 2002, but 2003 is the first year it will show a year-over-year gain. There were 572,805 Idaho nonfarm jobs at the beginning of last year. The number of jobs dipped to 570,754 in the second quarter of 2003, raising fears that Idaho's economy had stalled again. However, preliminary data show employment recovered to 574,468 jobs in 2003's third quarter. This was consistent with the stronger U.S. economic growth in second half of that year.

It is believed the U.S. economy turned the corner in the latter part of 2003. During this time two missing parts of the recovery fell into place. First, healthy business investment reappeared after being absent for several quarters. Real spending on business equipment advanced at a 15% annual pace in the third quarter of 2003 and 14% in the last quarter. It had been dropping as recently as the first quarter of 2003. Second, the jobless recovery finally started generating jobs. The civilian unemployment rate peaked last summer and has since been moving down, as nonfarm payrolls began expanding. This bodes well for both the U.S. and Idaho economies. National job growth is expected to keep the economy moving forward, and this will have a positive impact on the Gem State.

Idaho nonfarm employment growth is anticipated to gradually accelerate as the U.S. economy heats up. Specifically, nonfarm employment expands 1.0% in 2003, 1.5% in 2004, 1.7% in both 2005 and 2006, and 1.9% in 2007. While this growth is lower than during Idaho's long expansion, it is a welcome change from the absence of growth in 2002. Part of the reason for this subdued growth is the expected declines in the goods producing-sector over the next few years. This leaves the nongoods-producing sector responsible for all of the job growth. The largest growth engine will be the services sector followed by trade.

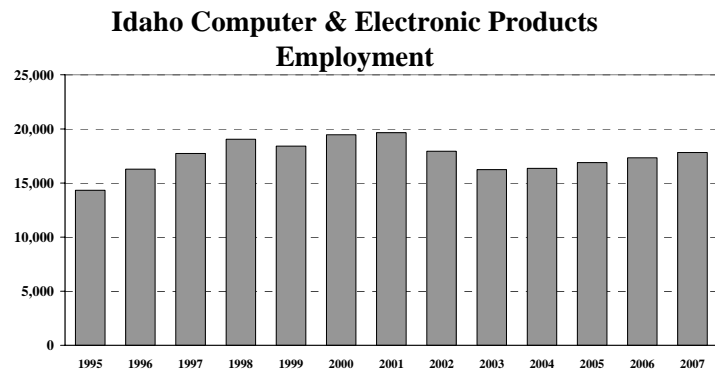
Idaho personal income growth is also expected to improve over the forecast period. Nominal personal income should rise 4.7% in 2003, 5.7% in 2004, 4.9% in 2005, 5.6% in 2006, and 5.9% in 2007. Idaho real personal income is projected to increase 2.7% in 2003, 4.2% in 2004, 2.9% in 2005, 3.5% in 2006, and 3.7% in 2007.

After stalling, Idaho's economy is making the turn toward prosperity. While this turn may seem slow to some, it is a change toward the right direction.

SELECTED IDAHO ECONOMIC INDICATORS

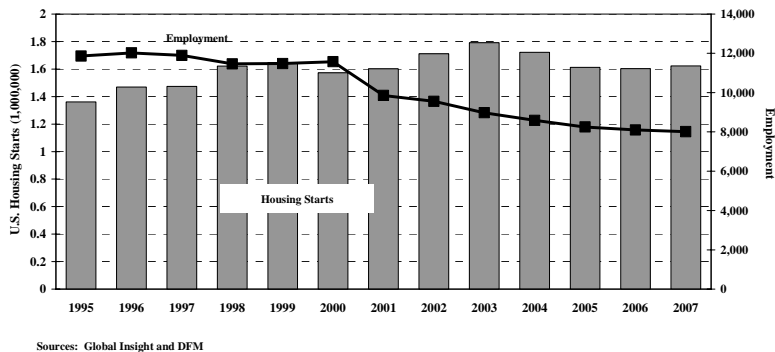
Computer and Electronics: Three years into the current high tech down cycle, Idaho's computer and electronics sector has yet to show signs of recovery. After peaking at nearly 20,700 in the first quarter of 2001, employment in Idaho's computer and electronics sector has declined in every quarter, with nearly 5,000 jobs lost from the 2001 peak to the third quarter of 2003. Its woes can be traced to the fallout from the bursting high-tech bubble. Fueled by the demands

of the Telecommunications Act of 1996, concerns over Y2K, and the popularity of the Internet, real investment in computer equipment advanced by at least 40% from 1995 through 1999. Real investment in communication equipment did not grow as fast as computer investment, but nonetheless showed healthy gains over this same period. For both of these investment categories the go-go years ended in 2000, when investment dropped well below the previous year's pace. Unfortunately, conditions were even weaker in 2001. In that year real investment in computers retreated for the first time since 1990 and investment in communications equipment also declined for the first time in a decade. Because Idaho's high-tech firms have deep ties to these sectors, the local impacts of weakened investment spending were swift and deep. Before the year was out, Jabil Circuit, Micronpc.com, SCP Global Technologies, Micron MCMS, AMI, and Hewlett-Packard had all announced layoffs. As a result, this sector's employment growth slowed from 5.7% in 2000 to 1.0% in 2001. Unfortunately, the worse was yet to come. The Gem State's computer and electronics sector suffered another round of layoffs in 2002, which caused employment to decline 8.8% in that year. It is not difficult to understand how hard this sector was hit. Four of the seven Idaho companies reporting layoffs of at least 100 persons in 2002 were high-tech firms. The news is even worse when measured in jobs. These seven companies laid off 1,515 employees in 2002, with the four high-tech companies accounting for 1,104 (73%) of the total decline. That same year, Jabil Circuit announced it was halting its Idaho operations and was putting its two-year old Meridian plant up for sale. One notable exception to the list of companies with significant layoffs was Micron Technology, the state's largest high-tech employer. However, it joined the ranks of companies laying off employees in 2003 when it cut about 1,100 Idaho jobs. Micron is the world's second largest manufacturer of computer memory products. Its primary competitors are Samsung, Infineon, and Hynix. In recent years memory chip prices have been driven low due to the combination of weak demand growth and the glut of memory chips in the global market. In order to remain competitive it is essential Micron maintains its position as the world's lowest cost producer of chips. After three years of dismal conditions, it appears the outlook for this sector is finally improving. Investment in computer equipment and software appear poised for a recovery. Computer systems and software purchased during the last expansion are nearing the end of their usefulness. In addition, the high-productivity returns for investing in computers should boost demand. Companies wanting to make these investments have found it relatively easy thanks to low interest rates, attractive depreciation treatment, and improved corporate cash flow. In fact, signs of improvement have already occurred. Real investment in computers advanced at a 53.1% annual rate during the second quarter of 2003 and at a 46.3% rate in the third quarter. Real spending on communications equipment increased at about a 15.0% pace during the first three quarters of 2003. While last year marked the return of investment growth, it should be noted that future investment growth is not expected to return to the stellar levels of the mid-to-late 1990s. The return of investment suggests cautious optimism is in order, and Idaho high-



tech firms are expected to expand accordingly. Idaho computer and electronics employment is expected to drop 9.4% in 2003 before rising 0.8% in 2004, 3.3% in 2005, 2.5% in 2006, and 2.8% in 2007. Despite this growth, Idaho's computer and electronics work force will be smaller in 2007 than it was in 2001.

Idaho Logging & Wood Products Employment and U.S. Housing Starts



Logging and Wood Products: The last few years have been frustrating ones for the state's lumber and wood products sector. This is because it has failed to hitch a ride on one of the strongest housing markets in years. Nationally, housing starts have risen from just under 1.5 million units in 1996 to nearly 1.8 million units in 2003. Under these conditions it would be expected employment in the lumber and wood products sector would expand.

Unfortunately, the opposite has occurred. Since 1996 over 3,000 Idaho wood and lumber product jobs have disappeared. It is also interesting to note that U.S. lumber production has fallen in several of the most recent years despite the housing sector's strong showing. Why is this sector performing so poorly when the housing sector is expanding? Given housing's health, demand does not appear to be the problem. Much of the blame for the wood and lumber product sector's sluggishness is supply related. Export markets have disappeared because of the global slowdown. The supply of wood products has flooded the hot U.S. market, keeping prices low. Another problem is its excess manufacturing capacity. One estimate shows this industry is already geared up to produce 20% to 25% more lumber than is being consumed in North America and Canada. It is anticipated the industry will gradually regain its balance, but only as older and less-efficient mills close. Another problem is the dwindling supply of federal timber. According to the U.S. Department of Agriculture, the total amount of timber harvested in Idaho fell from 1.8 million board feet in 1990 to 1.2 billion board feet in 2000, a 31% drop. These data also show that harvests from Idaho national forests fell an astounding 78% over this decade. Harvest levels are not expected to return to previous levels. These supply problems have exacted a high toll in Idaho. Approximately 125 jobs were lost when the former Boise Cascade mill in Cascade, Idaho ceased operations in 2001. About 250 jobs were lost last year when the Emmett, Idaho mill was closed. Potlatch shuttered its Jaype Mill near Pierce the previous year, a move that cost about 215 jobs. And the losses continued into this year. Louisiana-Pacific closed its Bonners Ferry mill this fall, putting about 140 people out of work. The company sold its Moyie Springs mill to Riley Creek, but not all of the former employees found jobs with the new owners. In early October Stimson Lumber informed 67 employees at its Atlas mill they were being permanently laid off. Idaho's logging and wood products employment is expected to decline from 8,974 in 2003 to 8,012 in 2007.

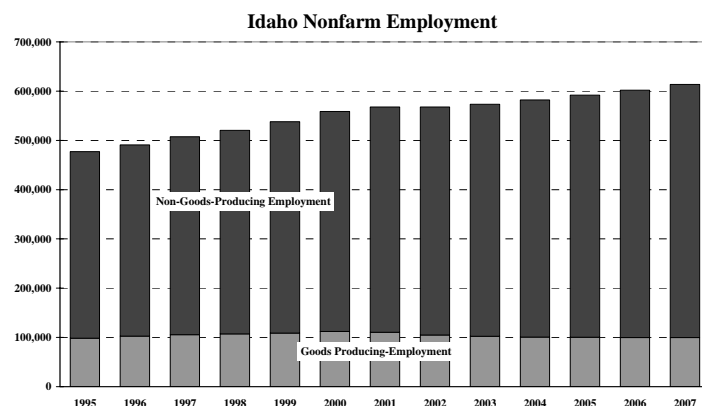
Mining and Chemicals: As with other resource-based industries, the Gem State's mining and chemical sectors find themselves in hard times. These industries are no strangers to the ebb and flow of the business cycle. However, the mining sector finds itself in the midst of a protracted decline with no relief in sight. The last time it had a net increase in jobs was 1997. While the declines do reflect the business cycle, there is also a downward trend component. Evidence for this can be seen by reviewing the mining data. It shows that in recent history each cyclical employment peak is lower than the previous one. This downward pressure helps explain why after peaking at nearly 3,000 jobs in 1997, employment fell to less than 1,800 jobs in 2002. These losses have been felt in several pockets of the state. In the last three years, Shoshone County has endured four major cutbacks. In September 2000,

the county's mining industry employed 726 people. After the Sunshine Mine closed in early 2002 and the Lucky Friday Mine laid off more than 150 workers, its employment is near 320. Unfortunately, there is little relief in sight. The combination of soft demand and the negative trend is expected to force Idaho mining employment to drift further down over the forecast period. Specifically, it is anticipated to drop from 1,737 in 2003 to 1,432 in 2007. The chemical sector's hard times may not have lasted as long as the mining sector's, but it has been painful. Although the Gem State's chemical sector had a few years with job losses, employment levels have been relatively stable over the last few years. This changed last year. Employment declined 17.2% in 2002 when 400 jobs were lost. This huge drop resulted from the closing of the Astaris (formerly FMC) elemental phosphorous plant located just outside of Pocatello. This closing had repercussions beyond the chemical sector. Several hundred construction jobs were lost when the plant closed. In addition, Idaho Power Company lost its single largest electricity customer. A blow of this magnitude is not easy to overcome, and the Gem State's chemical sector is expected to be reeling for several years. The forecast does call for some growth in the last two years of the forecast, but it will be slight, and in no way come near to covering the losses of the previous years.

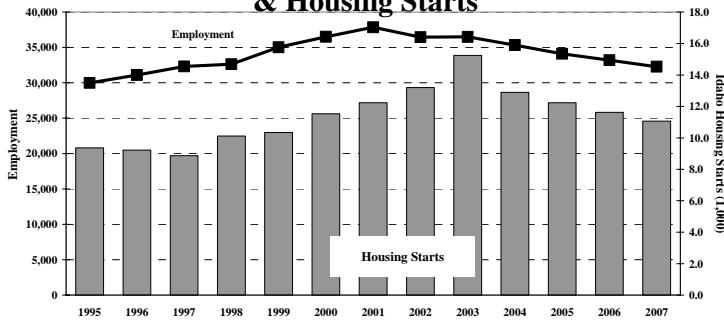
Nongoods-Producing Industries:

The nongoods sector is by far the state's largest employer. In 2002, it accounted for over 80% of all nonfarm jobs in Idaho. The nongoods sector is dominated by two major components: services and trade. Together they account for three fourths of nongoods-producing employment. Services is the larger of the two categories. It is an aggregation of several sub categories. The three largest services components

are: professional and business services; education and health services; and leisure and hospitality services. Together they account for nearly 72% of total service-related employment in 2002. In addition, professional and business services and education and health services have posted strong, consistent growth. The next largest group consists of sectors with employment of around 20,000 each. Financial services; transportation, warehousing, and utilities; and other services make up this group. The smallest sector is information services with about 9,200 jobs. The trade category can be divided into retail and wholesale trade, with the former being bigger than the latter. Not only has the nongoods sector historically accounted for the most jobs in Idaho, but it will also produce all the new jobs over the forecast period. It is sometimes helpful to group these jobs by their expected growth rates. Education and health services should be the fastest growing sector, averaging 3.6%. It will be followed closely by leisure and hospitality services and professional and business services, both of which advance 2.8%. Information services grow 1.4%. Financial Services employment growth is anticipated to average 2.3%, while other services and transportation, warehousing, and utilities are expected to average 1.4% growth. The trade sector can also be broken out this way. Retail trade should average 2.4% growth over the forecast period, while wholesale trade advances at a 1.7% yearly pace. Overall, total employment in Idaho's nongoods-producing sector is forecast to rise 1.8% in 2003, 2.1% in 2004, 2.2% in 2005, 2.2% in 2006, and 2.3% in 2007. After this forecast was finalized, T-Mobile announced it was opening a call center in Meridian, Idaho. The company plans to eventually employ 600 at the new site.



Idaho Construction Employment & Housing Starts



Construction: Idaho construction employment is projected to shrink over the forecast period. While the expected declines are modest, the change in direction is not trivial. Idaho's construction industry played a major role in the state's long economic recovery. Construction employment expanded from 20,350 in 1991 to 37,859 in 2001, an 86% increase. This was nearly twice as fast as Idaho total nonfarm employment over the

same period. As recently as 2001, construction employment expanded at a healthy 3.7% pace. Fueling this growth was the surge in housing starts. Historical data show Idaho housing starts climbed from 6,600 in 1991 to 13,196 in 2002. Much of this strength was due to the state's rapidly expanding population. There had been a dearth of building in the years leading up to the boom. As such, when newcomers began pouring into the state, the construction industry found itself trying to keep up with demand. This trend has proven to be a positive one. Because supply had been chasing demand for most of the expansion, there has been no significant inventory build up. This is the reason the housing industry did not collapse when the state's population growth began to ease. Instead, it should grow to 15,247 in 2003 thanks to low mortgage interest rates. After this year, starts should slide to the 11,000- to 13,000-units range. While this is a decrease from the previous year, it is still a historically high level. For this reason Idaho's construction employment decline should be modest. In the course of just a couple years Idaho's construction sector will transition from a growth engine to a slight drag on the economy. Specifically, Idaho construction employment should be stable in 2003, and then fall about 3.0% annually in the remaining years of the forecast.

Government: Idaho's government sectors are expected to grow slower than total nonfarm employment over the forecast period. This forecast for modest growth should not be a surprise given the expected slowing of the state's population growth and the budget limitations facing state and local units of government. The correlation between population growth and government employment gains is high. This can be demonstrated by reviewing the demographic and employment data from the last decade. Idaho's economy enjoyed a resurgence that commenced in the late 1980s and strengthened in the 1990s. While most of the nation languished in a jobless recovery in the early 1990s, Idaho enjoyed above-average job growth. Thus, Idaho was seen as an oasis of economic growth in a desert of hard times. Not surprisingly, Idaho net migration soared during this period. This influx of newcomers caused Idaho's population to advance much faster than U.S. population growth. California was particularly hard hit by the 1990-91 recession, military base closures, and the downsized defense industry. Given the Golden State's proximity to the Gem State, it is no wonder the lion's share of new Idahoans were from California. Faced with explosive population growth, Idaho state and local government found itself in catch-up mode during most of this time. As a consequence, this sector's employment expanded 2.8% annually. Growth began to taper off as Idaho's population cooled with the start of the new millennium. Idaho's state and local government employment growth has continued to slow, and it is expected to rise just over 1.0% in 2003, which is the same pace as Idaho population growth. Legislation passed in the mid-1990s restricts the budget growth of local units of government. The combination of slower population growth and budget limitations suggests Idaho state and local government employment should grow about 0.5% per year from 2004 to 2006. This growth can be broken out further into education- and noneducation-related employment. Idaho education employment is expected to grow slightly faster than overall state and local government employment while noneducation employment grow slower than the aggregate pace. Federal government employment is

not expected to fare as well as state and local employment. Specifically, it advances 2.9% in 2003 and 1.0% in 2004, and then declines 0.2% in 2005 and 0.1% in both 2006 and 2007.

Food Processing: One of Idaho's cornerstone industries is expected to recover slowly from its recent stretch of trying times. Food processing is the state's second largest manufacturing employer. Not only does the sector provide a large number of jobs, but also it has been a relatively stable job provider. For example, despite having gone through some challenging times, this sector's employment declined by less than 500 since the first quarter of

2002. Unfortunately, these times are not yet over. Currently, processors are dealing with weak demand for their products. It has been speculated worries about the economy are preventing people from dining out. There is some concern low-carbohydrate diets have decreased demand. However, it remains to be seen whether this will be a temporary or permanent change. Another fear is foreign appetites for processed potatoes may not be as deep as previously perceived. There are also concerns about the structure of the industry and what share Idaho will play in its future. For example, J.R. Simplot Company recently opened its newest plant in Canada. In recent years, Canada has become a major player in the processed potato market. For example, it has been reported that the U.S. became a net importer of French fries in 2000. This trend is expected to continue through 2005 as additional Canadian capacity comes on line. Unfortunately, as more Canadian capacity comes online, it makes older, less efficient plants vulnerable to closures. In Idaho, the J.R. Simplot Company closed its Heyburn plant in November 2003. Nearly 600 workers were affected by the closing. The plant was built in 1960 and had run continuously since that time. Unfavorable business conditions caused Simplot also closed its Nampa meat packing plant in the fall of 2003. Nearly 360 jobs were lost when the plant was idled. Idaho's food processing sector has been rocked by several severe setbacks in recent years. However, it appears the worse may be over, and this sector may be entering a period of relative stability. The demand for food should improve as the U.S. economy heats up. However, employment gains will be limited by ongoing structural changes in the food processing industry. As such, Idaho food processing employment is expected to decline 2.0% in 2003 and 0.5% in 2004 before growing 1.4% in 2005, 1.0% in 2006, and falling just 0.1% in 2007.

